
Minutes

Board of Natural Resources Meeting

October 7, 2008
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

The Honorable Doug Sutherland, Commissioner of Public Lands
Bob Nichols, for the Honorable Christine Gregoire, Washington State Governor
Bruce Bare, Dean, University of Washington, College of Forest Resources
The Honorable Terry Bergeson, Superintendent of Public Instruction
Daniel J. Bernardo, Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences
The Honorable Jon C. Kaino, Commissioner, Pacific County

BOARD MEMBERS ABSENT

NONE

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:08 a.m. on October 7, 2008, in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Terry Bergeson moved to approve the September 2, 2008, Board of Natural Resources Meeting Minutes.

SECOND: Bob Nichols seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

NONE

TIMBER SALES (Action Item)

Proposed Timber Sales for November 2008 (Handout 1)

Jon Tweedale, Assistant Division Manager, Product Sales & Leasing Division, greeted the Board and provided the timber sales presentation for the month of November. He reviewed the marketing update. He said that lumber prices have dropped and that two weeks ago, before Congress took action to deal with the national financial crisis, lumber prices dropped from \$250/mbf to \$200/mbf overnight. He said this has put some of our purchasers into a tailspin and they are questioning what may be next. There is some

concern about a housing rebound, and the Department is building uncut inventory because of the market. The stumpage prices have been stable; the purchasers are out there and they are interested, and they are operating one shift. More loggers are bidding on sales than sawmills, which indicates that the risk is too much for sawmills to put more assets on their balance sheets. The mills are letting the loggers take that balance sheet risk.

Ms. Bergeson asked what that means

Mr. Tweedale explained that it means that cash is tight and a corporation needs operating capital, or cash flow, to remain in operation. If they buy a million dollar timber sale they have to "book" that money right away, which makes it difficult for them to go to the bank to borrow money because their debt ratio is too high.

Ms. Bergeson asked why loggers would take that risk.

Mr. Tweedale said that the sawmills have already purchased a large amount, and that loggers and merchandisers have the cash that they didn't spend, so they are buying some of the sales and are willing to take a little more risk.

Mr. Kaino asked if the majority of the time the loggers have already cut a deal with one of the mills when they purchase the sales.

Mr. Tweedale said that the deals are usually cut back to back, and that the risk is shifted to the logger because now that balance is on the logger's books and the sawmill has freed up their ability to get cash; they still have a commitment, but not as strong of a commitment as if the sawmill had paid cash.

September 2008 Sales Results:

- 8 sales offered & 6 sold; 37.8 mmbf offered & 27.7 mmbf sold; \$7.6 million minimum bid & \$7.0 million sold; \$200/mbf offered & \$252/mbf sold; average number of bidders = 3.2

Mr. Tweedale said that in September the Department sold 6 of the 8 sales offered. The two that didn't sale were variable density thinnings. He said that the Department is having trouble selling thinning sales at this time because they are difficult which makes the risk even higher. The Department is seeing a high number of bidders compared to previous years, and the stumpage prices remain relatively strong.

Mr. Kaino asked if the average number of bidders include the no-bid sales.

Mr. Tweedale responded that the average number of bidders does not include the no-bid sales.

Chair Sutherland said that the Department has been selling a lot of wood in Northwest Region and both of the no-bid sales are in that region. He said he wonders if the Department has reached the point in that marketplace where the mills and loggers have enough inventory already, especially as they look at the processing of the wood.

Mr. Tweedale said that he believes that competition is still strong in Northwest Region and that the mills are still willing to buy; he believes these were just pricing issues and that the market is not saturated in that region. He said that in contrast, the blowdown has saturated the pulp market in Southwest Washington, but the pulp market is strong and that pulp is being utilized which is favorable for the Department.

Proposed November 2008 Board Sales:

- 9 sales at 33.6 mmbf; \$6.8 million minimum bid; average \$203/mbf.

There were no SEPA comments.

MOTION: Jon Kaino moved to approve the November 2008 timber sales.

SECOND: Terry Bergeson seconded.

ACTION: Motion passed unanimously.

State of the State Lands (Handout 2)

Bruce Mackey, Lands Steward and Jed Herman, Product Sales and Leasing Division Manager approached the Board to present the State of the State Lands report. Mr. Mackey noted that this is the third State of the State Lands address, and that several required reports have been combined into one presentation that will be broken into three parts:

- Forest Management including timber harvest and silvicultural treatments
- The status of forest roads
- Non-timber revenue generated programs

Mr. Mackey thanked Jed Herman and Judith Holter for their help on the report.

Mr. Mackey cited from the three policies that direct this report. He said the state of the state lands report addresses three of the Board's requests in the Policy for Sustainable Forests (PSF) resolution that was adopted in 2006. The PSF reads "The Department will employ a structured program to monitor the implementation of the policies in the Policy for Sustainable Forests and will report annually to the Board of Natural Resources on implementation." The original Sustainable Harvest resolution of 2004 and the revised Sustainable Harvest resolution of 2007 both state that the Department report annually on the result of implementing the sustainable harvest level, they also direct the Department to notify the Board if there is any indication it should consider an adjustment to the decadal harvest level. Mr. Mackey stated that the Department sees no need to adjust it at this time.

Mr. Mackey reviewed an outline of his presentation and explained that most of the data in the report is for FY 2008 (July 1, 2007 – June 30, 2008). He said there may be some anomalies but

he would explain them as the presentation unfolds. He reviewed a chart of the timber volumes sold. In 2005 the Department planned for 539/mmbf and sold 598/mmbf. In 2006 there was a drop due to the litigation and in 2007 the severe fire season brought the level down and this year with the blowdown the Department was able to bring the numbers back up; those numbers do include the blowdown. He reviewed the numbers in terms of volume sold that show that the Department is on track. The value of the timber sales sold put the Department ahead by about 10-12 percent on total revenue.

Mr. Kaino asked when the target numbers were set.

Mr. Mackey replied that they were set in 2004 and reset in 2007. Mr. Mackey reviewed the numbers for the Trust Land Transfer (TLT) Program. He noted that there have been a little over 1,000 acres of TLT's on the west side. Almost 13/mmbf have been transferred, with a timber value of \$3.4 million going directly to the Common School trust beneficiaries and \$2 million to the Real Property Replacement account to replace those properties. The total TLT transaction value is \$5.4 million.

Mr. Mackey cited that the original sustainable harvest calculation (SHC) resolution reads that "The Department shall provide a report to implement "biodiversity pathways" and other innovative silvicultural practices in connection with implementing the sustainable harvest level." He explained that biodiversity pathways refers to a management regime or several entries over a total rotation for a stand to meet several objectives: biodiversity, habitat conservation, and/or revenue. He noted that the Department does not have a way to quantify biodiversity pathways by specific activity so his PowerPoint slide refers to the amount of thinnings in habitat management areas. The first target areas are 1) owl dispersal habitat, 2) nesting, roosting and foraging (NRF), and 3) the Olympic Experimental State Forest (OESF). The Department did well in the owl habitat, but did not do as well in the OESF as planned due to the market; small diameter hemlock on the Olympic Peninsula doesn't sell.

Ms. Bergeson asked what the title "Biodiversity Pathways" means.

Mr. Mackey explained that biodiversity pathways is a way of going into stands and rather than managing them for commercial use to create structural variation to create habitat. He said that different tree species may be taken out or left, for example in the NRF dispersal areas trees will be taken out or left that have a lot of structure to move the stand to habitat as quickly as possible.

Ms. Bergeson asked if the biodiversity pathways are the big concept and the silvicultural treatment is the strategy to get to different pathways in different areas.

Mr. Mackey said that was correct.

Mr. Kaino asked if a gnarly tree might be saved rather than a good tree because it might be a nest.

Mr. Mackey said that is the case and that is why the Department picked the habitat areas.

Mr. Nichols asked if the treatment was solely thinning or more than thinning.

Mr. Mackey replied that in theory biodiversity pathways includes the final harvest, but in the NRF and dispersal areas there will not be a final harvest.

Mr. Nichols asked if they go in and pick the trees.

Mr. Mackey said that was correct, that they may open a small patch or leave a patch.

Mr. Kaino asked if there is any differentiation between pre-commercial thinning and commercial thinning.

Mr. Mackey replied that no pre-commercial thinning was included in the data be presented.

Ms. Bergeson asked what "pathway" means.

Mr. Mackey replied that when Angus Brodie (DNR staff) did the SHC he took all the objectives and analyzed how the Department could maximize reaching them the fastest; it lays out a pathway that is used in planning and tracking, so staff know the goals and they are kept in the sustainable harvest.

Mr. Herman said that the pathways tend to be stand by stand. The NRF, Dispersal and the OESF are large landscapes and include the two different scales that the Department is doing this in.

Ms. Bergeson said the term "pathways" is confusing because it is a strategy not a place. She understands that it is not a pathway in terms of a type of habitat; it's a strategy to get to healthier habitat over a long period of time.

Mr. Mackey said that was correct.

Mr. Nichols asked if this information will be incorporated into the agency's annual report.

Mr. Mackey replied that most of the economic data will be in the annual report, but not this data.

Ms. Bergeson asked if this is the Department's response to the Boards request to know what it's doing.

Mr. Mackey said that was correct.

Mr. Nichols said that this may be something that the Department might want to incorporate into the agency's annual report because this reflects back to the three circles that were talked about.

He said that because of the language that is used pathways needs a footnote to describe that it is a long-term biological benefit.

Mr. Mackey said that it is really a strategy over the life of the stand to reach a goal that you want to reach.

Ms. Bergeson said that it is not a thing, rather it is a process.

Dr. Bare said that the goal is to grow older forests, not old growth, but more acres of complex forest structures. He asked how close the Department is to reaching that 15 percent goal.

Mr. Mackey replied that this is looking at how the Department is meeting its goals for spotted owl and the OESF. On top of that, there is a target of 10-15 percent of older structure in every planning unit across the landscape; most of that is being created in riparian areas. Some is also being created with leave trees, due to the legacy tree policy.

Dr. Bare asked if there are any charts that show that the Department is moving towards that 10–15 percent goal.

Mr. Mackey said that staff go out every year and conduct intensive monitoring on the implementation of the Habitat Conservation Plan (HCP). The information is reported to the services every year.

Chair Sutherland referred to the chart on page 10 of the handout.

Mr. Mackey said that the chart covers the whole landscape. He explained that the Department invests resources to meet the habitat goals, the sustainable harvest, and all the policies that are in place. He said the Department surveys stands that may need some type of treatment in the future; the surveys are done every year. The stands are inspected for pest damage, possible thinning, site preparation, and for stocking levels. Surveys are conducted on about 60,000 acres on the west side and over 10,000 acres on the east side each year. Once that is done staff can plan how many acres need site preparation to control vegetation so there is enough room for the trees to grow.

Mr. Mackey said that the Department plants about 20,000 acres per year between the west side and the east side. Once it's planted, staff has to go back and make sure it's free to grow. When the stands are well established if there are more stems per acre than needed, pre-commercial thinning is done. He said that the Department also inventories about 20,000 acres between the east and west sides. The inventory tells the Department what the stands look like and how much standing inventory it has. The current standing inventory is about 44/bbf. Statewide the Department is growing about 1/bbf per year. The decadal average for both east and west side for the sustainable harvest is around 635/mmbf that is harvested. The inventory shows that the Department is growing more timber than it is harvesting; the Department is growing 1/bbf per year and is harvesting between 600 to 650/mmbf per year.

Mr. Kaino asked if Mr. Mackey's statement that the pathway includes the final harvest, but in the case of the dispersal and others there is no final harvest, was 100 percent accurate. He asked if there is any potential for a final harvest in any of those areas.

Mr. Mackey replied that once the Department gets enough NRF, or Dispersal to move it around, there could be a harvest.

Mr. Bernardo talked about not meeting the goal on the OESF for market-driven reasons. He asked if it may not be prudent to just get it done in order to meet the environmental objective, even though the Department might take a small loss on that type of harvest. He said, in other words to raise the OESF "bar" to 1,250 and take a little hit on that harvest. Mr. Bernardo commented that at least the Department is meeting that particular objective and that in the grand scheme of things 750 acres is insignificant to its operations.

Mr. Mackey replied that the thinning does cost quite a bit per acre, and that the Department has tried to put some of those sales up, they just don't sell. He said that even if the Department had the money and took that approach the result would be the same. He said that small diameter hemlock, a long way from everywhere isn't selling.

Mr. Kaino said that it is true that the sales aren't selling due to market conditions and a five-year delay is just a blip on the radar screen.

Mr. Mackey said that the only caveat is that in the Settlement Agreement the Department indicated that it was going to do as much regeneration as it was thinning, so it is going to get into a pinch which would argue for Mr. Bernardo's approach, but the Department simply can't do it.

Ms. Bergeson asked what "LIDAR" stands for.

Mr. Mackey explained that it stands for "Light Detection and Ranging." The technology uses light radar to bounce off the surface and back up; it gives very accurate topography maps. LIDAR is able to go down through the canopy and back up; it can be used to develop models that actually look at part of the canopy so staff can begin to see what the trees look like. The Department has found that by combining LIDAR with infrared aerial photography it obtains more information about species, density, and structure. Combined with ground tests, it can more accurately define species within stands.

Mr. Nichols asked if it measures volume.

Mr. Herman replied that it provides some indicators of volume and species.

Ms. Bergeson asked if this is an additional 120,000 acres that was found using LIDAR that the Department didn't know it had on the ground.

Mr. Mackey replied that this is the number of acres that were surveyed, or flown using LIDAR.

Chair Sutherland asked what the cost was.

Mr. Mackey replied that he did not know the cost.

Mr. Tweedale said that it costs \$1-2 dollars per acre.

Ms. Bergeson asked what "acres treated" means in the chart.

Mr. Mackey replied that it is the number of acres that have been addressed in that category; acres that have been looked at, surveyed, or had some management activity performed.

Mr. Herman said that "treated" is probably better for the acres that are thinned or planted. The other ones are more like survey acres.

Mr. Mackey noted that there is a new greenhouse at Webster nursery and that it grows about 9 million trees a year; it sells most back to the Department and some to the public.

Mr. Mackey addressed the Department's green certification programs. He explained that the Department started the Sustainable Forestry Initiative in 2005 and received statewide certification in 2006. The Department has to re-audit over a 5-year period to keep its certification, and tries to do 2 regions each year. In the last audit, which took place in the Olympic and Northwest regions, the audit team visited 43 sites and the Department received notable practices. The auditors were impressed with DNR's activities on public outreach and collaboration efforts, for protecting working forests, for riparian restoration work, and for certification awareness training. The Department provided the auditors with information on its recreational program and cultural resource training. The Department had no "non-conformances" and no "opportunities for improvement" in the audit.

Ms. Bergeson said she thinks this is wonderful and is very proud of the Department. When she thinks about what we are facing in the banking industry versus the forest products industry, this is sustainability at work and is going to pay off for our citizens for a long, long time. She said that this is going to build a foundation that will help us get through the financial crunches that we had nothing to do with creating, and that we are going to have better forests and are going to have the use of our Common School Trust and all the other trust lands in perpetuity for our people and that is wonderful. She congratulated Doug and the Department.

Mr. Mackey thanked Ms. Bergeson. He said that in May the Department earned Forest Stewardship Council (FSC) certification on approximately 145,000 acres of state trust lands in the South Puget Sound HCP Planning Unit, which includes parts of King, Pierce, Thurston, Lewis, Kitsap and Mason counties. He said that DNR has dual certification, both Sustainable Forestry Initiative (SFI) and FSC. He mentioned that there will be a celebration for the FSC celebration in Seattle at REI and invited the Board members to attend.

Mr. Nichols brought the discussion back to the three circles concept and reporting this in the annual report. He said that the title "Silvicultural Treatments using Biodiversity Pathways" is the guts of the long-term state vision for the state's forests, and he thinks that being able to describe this to the public would be very useful. He said that the certification is not a parallel process; it is meshed within and integrates supports and enhances that long-term state vision. He said he thinks that those two things together are a great story as far as a long-term vision and that it's comprehensive; it takes into account the social, economic and biological habitat circles and he thinks that is a great story to tell.

Mr. Mackey agreed and said that some of that is in the annual report.

Chair Sutherland said that he agreed and that the Department is in the process of closing the books for FY08 and won't have that done until it has the fire data. The report is typically released in January and he will talk to staff to see how much of this can be incorporated into the report. He said that the first half of the report deals with these kinds of issues for the past year, and that at times it can be heavy and verbose.

Ms. Bergeson commented that it needs to be reported like telling a story, instead of the information just captured as data.

Mr. Mackey said that they have attempted to change the report to tell some stories showing what the numbers mean, and that is what is in the first part of the annual report.

Mr. Nichols said that he wants to see how a snapshot in time is nested within a broader long-term vision. He said that when he looks at an annual report and annual data, he thinks that it is really difficult to tell what it really means, but if it's nested within a longer-term game plan then it begins to make sense.

Ms. Bergeson said that she is involved in several projects with high school Science, Technology, Engineering and Mathematics (STEM) looking at the numbers of young people that are not going into careers in math and science; careers that we need them to care deeply about. She said that the work that the Department is doing and the work involved in these specific commendations are deeply scientific; there is all kinds of math and understandings of patterns and follow-through that kids would be interested in doing. She noted that she was just looking into a survey of kids not wanting to go into science and math because they think it would be too boring. They don't know that this is the work imbedded in what Bruce has been talking about. She said that when she thinks about the work that Pacific Education Institute (PIE) and the Forest Protection Association is trying to do to attract young people into the forest products industry that this is a whole set of careers within a large industry that is directly related to environmental sciences, math and many other issues. She said that we have to get kids excited about taking the kind of academic programs, and going into their post-secondary training, so that this kind of work can continue. She said that young people do not know the connection between the courses they take in middle and high school. She feels that now that we are having such a difficult financial time and are deciding how to re-build and get back on an honest track, that isn't the quick-fix nonsense that has practically taken us over the cliff as a nation, that

we are leaving this for our young people and they have got to know that this kind of work and educational opportunities enabling them to do it are out there. She said it is much easier to build than it is to take it down. She said she feels that we have to hang on to the core of what the people have done to make this kind of thing happen, and that people need to know that they can trust, because there is so little trust left about institutions. People need to know that they can trust this, and that their future is on the line and they need to stay connected to it. She closed by saying that she thinks that those stories are going to become more and more important as people feel angry and betrayed, and this is a story that is opposite of that.

Mr. Mackey thanked Ms. Bergeson and moved on to the new market opportunities. He explained that one of the things the policies asked for was to look at financial diversification. He said that Jon and his staff do a great job of analyzing market trends, looking at individual species, and marketing differentiation whether they are using the forest improvement thinning program, contract harvesting, or conducting advertising. He said that there are some new markets and the Department is contacted frequently about the opportunity to use the slash for biofuels or carbon. He said that the Department is also looking at carbon credit markets. But he doesn't think DNR should be an "early adopter," taking all the risk, or be the financier for a venture capital firm which is what most of the requests are. He said that as soon as that market matures a bit he feels the Department will be in a great position to be a major player in these markets and he feels that fits into Ms. Bergeson's comments about science and math and where young people can fit this into their careers and future.

Mr. Mackey noted that the Department has 64 wind turbines and another 96 have been proposed or are being negotiated. He moved on to forest health, explaining that the Department's Forest Improvement Treatment program (FIT) is directly related to the overstocked stands. DNR started out with a goal of 5,000 acres per year and increased it to 10,000 acres. In FY08 we have completed about 2,715 acres and have another 3,462 currently active. We will hit a little over 6,000 acres which is good considering the markets. He said that the Department was concerned at the beginning of the year because the pulp market rebounded; the demand for that material has increased.

Mr. Mackey said that Eric Schroff and his staff have provided updates on the blowdown. The Department has treated 3,700 acres and 113/mmbf which is all sold and is removed right now. He said that this is an investment back in the forest. The net present value of doing nothing versus doing this adds up to \$3,000 to \$4,000 per acre, which is money for the trusts because the lands are being made productive instead of sitting there idle for many years.

Mr. Kaino said that there is no way to overstate the importance of the job that field staff has done. He said that it is not often in government that you can see something go from meetings, to the end result of being so successful in such a short time. He said this shows what can be accomplished when you set your mind to it, and that the Department was under a natural timeline because of the wood deteriorating, and that it did an incredible job. He said that they may not get every stick of the wood out there but what has been salvaged is impressive. He said that he was originally a doubter that this could be done as efficiently as it has been but it

has been done well and he commended Chair Sutherland, Mr. Mackey, Eric Schroff and everyone working out there for getting it done.

Mr. Nichols said that the categories fit within the three circles and are also part of the story. He said that the response that Jon was talking about doesn't only have economic value, but was a response to community needs, which is part of the DNR story and could be told under the concept of the three circles.

Mr. Mackey said that that preserving genetic resources is lower on the radar in terms of publicity but the Department has joined with several outside partners to set up a cooperative seed orchard in Eastern Washington. Some of the partners are the Coeur d'Alene Tribe, Idaho Dept of Lands, a family forest owner, Inland Paper, Stimson Lumber. This provides the capacity to have appropriate seedlings available in Eastern Washington. Taking a leadership role in putting this orchard together is another effort to address the long-term health of forests on the eastside.

Mr. Mackey reminded the Board that the Department did a lot of work with the legislature surrounding old growth, concentrating on the east side. The interim report to the legislature indicated that the older forests and stands on the east side are entirely different than on the west side of the state. Mr. Mackey referred to the "Guide for Identifying Old Trees and Forests in Eastern Washington" that was just published. Board members are being provided with a copy. Mr. Mackey said that Dr. Van Pelt will be using this as part of the text for one of his classes. He noted that work the Department has done in conjunction with the U.S. Fish and Wildlife Service and the University of Washington is a guide for field staff on how to deal with older forests and how to meet our forest health, environmental and fiduciary duties on the east side.

Mr. Mackey referred to another report making the case for active forest management. He said that this is a guide for staff on the east side to manage for fire danger, older species, fire tolerant species and structures. The Department has also posted the marbled murrelet scientific report to the web; it will be going to press soon. He noted that the Department will develop a strategy from that report for the marbled murrelet as required in the HCP.

Mr. Mackey addressed the social and cultural benefits. He said that public access and recreation continues to be a significant issue for state lands. He said it is a notable practice being open for state lands in the SFI audit. He said that Ms. Bunning has been working on putting together a sustainable recreation workgroup and invited her to update the Board on the process.

Ms. Bunning explained to the Board that the Department was fortunate this current biennium to make a case for additional resources to make a difference with recreation on the trust lands. The Department is in the process of completing three recreation plans for three landscapes within the state distributed on different geographic locations. The planning process starts with what the lands have in terms of soils, slopes, activities, and plants. She said that the Department is working with community groups that are very engaged, and she provided an example of a workgroup in the Yacolt Burns State Forest that recognized they were in the wrong

spot in that landscape and were in agreement for working towards a different future to make it compatible.

Ms. Bunning reported that the Department is working on a consistent signage plan; there were funds to implement the signs in the Tahuya and Capitol Forest landscapes this year. She said she hopes that more funding will become available to implement consistent signage across the state in the future. The Department recognized that the public did not always know where they were allowed access, so the Department is working on providing more information to the public. Information has been placed on the web and will help the Department manage that social layer better. The Department asked the legislature to set up a working group to look at the 35-year-old Multiple Use Act and make some recommendations back to the legislature. The group consists of 28 members plus 3 legislators. The group represents community leaders, environmental groups, land owners and just about every kind of user group; there is a representative of the trust who is the student body president at Central Washington University. The purpose of the group is to look at the Multiple Use Act policies and recommend any changes if needed, and to develop a long-term vision of what this recreational opportunity should be. The trust lands, natural areas and aquatic lands are all included in this. Ms. Bunning said that the Department is attempting to change its approach to recreation now that it is better funded.

Ms. Bergeson said that if the public can understand the story, the Department can use their energy to help it reach its goals.

Mr. Mackey said that the Department received a notable practice for its Cultural Resources Training. The Department has published two publications about cultural resources. The training has attracted people from other agencies. DNR is the only one that has included tribal members in its cultural resources training.

Mr. Mackey explained that the purpose of forest land planning is to better implement the SHC, and the HCP on the ground. Forest land slows the operational considerations of implementing the PSF, and documents issues on the ground with the public and tribes so that DNR can implement the SHC and the HCP. The Department is in the final stages of the South Puget Sound Planning unit. There have been public meetings on the draft EIS, it has been published and the Department is responding to those comments. He expects to have that plan completed by the end of this biennium. The OESF is part of the HCP commitment as well as the settlement commitment. The Department is currently identifying alternatives and issues for the draft EIS, incorporating that information into watershed analysis and developing watershed assessment models. The OESF is being coordinated with the Forest Land Plan; the research and monitoring efforts have been published online. Project validation is being developed and the Department is ready to demonstrate some innovative forestry. He said that other forest land planning for other HCP units are on hold due to the budget.

Mr. Mackey explained that the Department is required to fix all the fish passages under the Road Maintenance and Abandonment Program (RMAP's) under forest practices. There are a little over 12,000 miles of roads on state lands. The Department has constructed 151 miles,

reconstructed 142 miles, and abandoned or decommissioned 158 miles of roads this calendar year. The total number of fish barriers changes as they are located and identified; the current estimate is about 1,500. DNR has removed or replaced 640 culverts which has opened up 320 miles of streams to fish. That leaves 860 left to open up by 2016.

Mr. Mackey provided a summary of the income from the non-timber programs. He reviewed a slide that showed income from leases and activities in 2008 totaling \$33,050 million. He said that wheat and barley prices were historically high and the Department did well selling at an average of \$8.80/bushel compared to past prices of \$3.30/bushel. He said that the Department has 6 parcels totaling 550 acres on Red Mountain that will generate \$800 – \$1000/acre. Special use leases include numerous activities including wind turbines as well as the oil and gas exploration leases that provide good income. He moved to the slide that shows the details of the upland leasing and rights of way programs. He said that the chart shows that under commercial real estate that the Department has 9 office buildings where it owns the structures as well as the land underneath. The Department has 461 communication site leases, with tenants in agency-owned facilities (at 22 sites), and land-only leases (at 79 sites) where the tenant owns the towers and communication shelters. There is a total of 101 sites.

Mr. Mackey said that for the most part DNR is specializing in land use and natural resource management. He said that the Department will look at department-owned structures in the future to determine if they are activities that it should be concentrating on.

Mr. Mackey moved on to a slide that showed the summary of revenue from leasing and timber revenue for FY08 to be \$190.3 million. Mr. Mackey pointed out that the amount of revenue from the leasing program has doubled. He reviewed the timber sales revenue and explained that the Department may sell the timber but it only gets the revenue when it's harvested which can be a year to two years later. He reviewed the volume sold versus the volume removed. He explained how the volume removed went down in 2006. He said that the volume is building and that explains why the Department is in a cash flow pinch. Mr. Mackey explained that those are typically two-year contracts and that the bright side is that they will be taking the timber down in the near future.

Mr. Kaino asked if some of this could be a result of the storm and the blowdown and the fact that the market wasn't there for the sales that had already been sold, and if there was so much wood out there from the blowdown that it deferred the harvest of those sales.

Mr. Mackey replied that he thought that could be the case but that also he thought the financial market played a role. He said that because the Department operates on a cash-flow basis and keeps a 3-month fund balance, with 2-year contracts it needs to keep harvesting timber to keep the cash-flow coming in. DNR can't draw back and not sell where private industry can do that. He said if the sales are averaged out, DNR is selling the same amount of timber all the time but the buyers are deferring harvesting because of those reasons.

Ms. Bergeson asked what happens at the end of the 2-year contract if the buyer doesn't have the money to take the timber out.

Mr. Mackey said that they would default and the Department would get the timber back; the buyer would lose their bonds and the money they put up, and the Department would re-auction it. He said that there is considerable volume out there and with the current financial situation, it puts the Department in a risky situation. He said that there have been a low number of defaults but that does not mean the risk isn't out there.

Mr. Bernardo asked what the percentage of the bid the buyers are bonded on.

Mr. Tweedale replied that it varies, but that on scale sales it is 30 percent, which is a disincentive for defaults. He said that they are liable for the entire sale on lump sum sales, which normally leads into negotiations.

Chair Sutherland pointed out that the amount of volume remaining through FY00–03 was significant, and that it began to decline dramatically in FY04. He reminded the Board that the Department used to have longer contracts and when it shifted back to the 18 to 24 month contracts then the amount of volume remaining went down dramatically.

Mr. Mackey said that this was done on a conscious basis when the Department talked to the Board about the Sustainable Harvest. The Department knew it had a year or two to invest prior to the harvest level coming up. One way to create that cash flow was to shorten contracts which was done knowing what some of the consequences could be. He reviewed the trends in timber value. In 2005, the Department sold a little over \$200 million in value; in 2006 it sold just under \$200 million; and the same in 2007 and in 2008 even though DNR had quite a bit of volume the value went down. He said that the good news is that the value remaining remains constant and there is revenue that will be coming to the Department, but it is a year or two out. He said that over the 10-year planning horizon the Department is on track, but given the current market condition it is in a cash crunch.

Mr. Bernardo asked if there is a natural resource risk management agreement. He said that the buyers are purchasing cheap material now that will be harvested in two years, but there is going to be more volume out there. He said those two things will work in counter, because they have this inventory built up that they'll have to move, but it's at a low price. He said that right now the Department is receiving smaller amounts but at a higher price.

Mr. Mackey said that even if the prices go up tomorrow and DNR continues to sell it, the Department won't realize it for another year or two.

Mr. Kaino said that the sales have already sold and the purchaser is the one that benefits if the prices go up and takes a hit if the prices go down.

Mr. Mackey said that he agreed with Chair Sutherland when he stated that the industry used the Department as an inventory and insurance policy.

LAND TRANSACTIONS

Manke Road Direct Transfer #02-079731 (Handout 3)

Debi Van Buren, Property & Acquisition Specialist, greeted the Board and began the Manke Road Direct Transfer presentation.

The Department of Natural Resources proposes to convey by direct transfer to Rainier School District No. 307, approximately 80 acres of Escheat Trust property located in Thurston County. The proceeds from the transfer will be used to purchase replacement property desirable for the Common School Trust. The property asset base of the Escheat Trust is improved by:

- Disposing of property that is inefficient to manage for revenue,
- Enabling the replacement of the trust asset with property that has greater potential for increased revenue production and other possible benefits.

The property is approximately 4 miles southwest of Yelm and approximately 3 miles north of Rainier and is within Section 34, Township 17 North, Range 1 East, W.M., in Pacific Cascades Region. There are no state-owned improvements on the property. The market value of the property is \$720,000 and will be purchased under a real estate contract with an initial payment of \$600,000 and the balance of \$120,000 paid to the state over 4 years at an annual interest rate of 6.55 percent. The transfer is authorized by RCW 79.17.200. Upon full payment of the purchase price of \$720,000, conveyance of title will be by quitclaim deed. Mineral rights will be reserved in the Escheat Trust.

Ms. Van Buren said that the Rainier School District is purchasing 80 acres of Escheat Trust property for a future school site. She explained that Escheat Trust properties come to the state when an owner dies without a will or any heirs; the land is managed for the Escheat Trust. The property is zoned rural residential which is one home per five acres.

Chair Sutherland asked if the value of the land was determined by a third-party appraisal and if the Department reviewed the appraisal.

Ms. Van Buren said that the value was determined by a third party appraiser and that the Department generally reviews the appraisal. She said that sometimes they are sent for a third-party review, and she couldn't recall if this review was done in-house or by another third-party appraiser.

MOTION: Terry Bergeson moved to adopt Resolution 1274 approving the Manke Road Direct Transfer

SECOND: Jon Kaino seconded.

ACTION: Motion passed unanimously.

HARBOR LINE COMMISSION

The Board convened as the Harbor Line Commission at 10:36 a.m.

Port of Kalama (Handout 4)

Jim Lucas, Port of Kalama Commissioner greeted the Harbor Line Commission. He thanked the Commission for allowing the Port to present its proposal and thanked Commissioner Sutherland for traveling to Kalama to review it with them. He also thanked Hugo Flores for facilitating the three required public hearings. He offered his staff as a reference if there were any questions during the presentation.

Rich Doenges, Aquatics Resources Division Manager and Hugo Flores, presented the Port of Kalama harbor line relocation. Mr. Doenges explained that Article 15 of the State constitution mandates the legislature to appoint a Harbor Line Commission; the Board of Natural Resources will act as the Harbor Line Commission. The duties of the Harbor Line Commission are to locate and establish harbor lines in the navigable waters of the state, within or in front of the corporate limits of a city or within one mile of those corporate limits. The intent of the harbor areas are to preserve those areas forever for navigation and commerce, and to promote the exchange of goods from ship to land, and land to ship. This authority allows the Harbor Line Commission to maintain the capability of these harbor areas for commerce and navigation. The Department has held some public meetings, but they were only part of the process the Department followed. He explained that the proponent submitted a completed application about a year ago. The Department started with public outreach and consultation, gathering public comment from interested parties and those affected by the proposal. The Department scheduled public meetings, evaluated the proposal and developed alternatives. In this case the alternative was either no action or the proposal from the Port of Kalama. He noted that the Department developed a set of staff recommendations which have been provided to the Commission.

Mr. Doenges reviewed a map of the harbor area explaining that the Port of Kalama is engaged in the export of logs and grain, and that it has a 222 slip commercial marina. He said that this harbor area is one of 28 established harbor areas within the state, and that the harbor line was established in 1922; the outer harbor line was adjusted in 1975. He explained that this is the third action by the Harbor Line Commission in the Port of Kalama.

Mr. Doenges said that the current harbor area is approximately 120 acres and encompasses about 3½ miles of waterfront on the Columbia River. He noted that the marina was constructed in 1970. He explained that harbor areas are delineated by the inner and outer harbor lines, and that this proposal is to move the inner harbor line. He reviewed the proposed harbor line on a slide showing that the inner harbor line encompasses an existing city park and public recreation area, which aren't uses that are contemplated as being in a harbor area. The proposal suggests that the inner harbor line be moved water-ward about 400 feet. This would reduce the harbor area by approximately 15 acres offering those areas to continue in their existing use for public recreation, and some new uses that would support the existing marina.

Ms. Bergeson asked what the value of this proposal is.

Mr. Doenges explained that the value is that the existing use is inconsistent with a harbor area designation, and that it can impact whether or not future uses, or existing uses will be officially authorized.

Mr. Nichols asked where the camping area is located and if that is part of this proposal,

Mr. Flores stated that it had been changed into a day use park.

Mr. Doenges said that it is part of the proposal.

Mr. Nichols said that the use is inconsistent with the harbor line and the line is being moved to get it out of the harbor, but he asked who retains ownership of that land.

Mr. Doenges explained that the Port of Kalama retains the ownership.

Mr. Kaino confirmed that the ownership will not change, just the harbor line.

Mr. Doenges confirmed his statement.

Mr. Kaino summarized that that the harbor line is being moved to exclude the upland usage from within the harbor line boundary, and that some restrictions would go along with it.

Ms. Bergeson asked if this would open up new opportunities within the new boundary line.

Mr. Doenges explained that the harbor area designation will be made consistent with the existing shoreline planning, and current and future uses as proposed by the Port of Kalama.

Mr. Nichols asked if this was once under water.

Mr. Doenges said that it was and that in 1969 or 1970 a navigational dredging project by the Army Corp of Engineers placed the spoils there.

Ms. Bergeson asked if they would be able to develop additional commerce in the area.

Mr. Doenges said that he understands that the proposed uses are either uses associated with supporting the marina, the existing public access and recreation purposes and some expansion of the public recreation. He said that the Department looks at the changes to make sure there are no impacts to existing vessels, navigation or commerce. The change will provide additional support to public access and the current marina activities.

Ms. Bergeson asked if public access is enhanced from the water side as well as the land.

Mr. Doenges said that is correct. He said the Department also makes sure that the changes are consistent with the local jurisdictions land use planning and it is consistent with the shoreline designation which allows commercial development to occur. It is also zoned industrial but that zoning industry designation allows for some commercial and recreational uses.

Mr. Kaino asked if there had been any opposition to the proposal.

Mr. Doenges explained that the Department held one scoping meeting, one public information meeting and one formal public hearing with one person in attendance at the public hearing that was in favor of the proposal.

MOTION: Terry Bergeson moved to adopt Resolution 1276 approving the Port of Kalama Harbor Line relocation

SECOND: Dan Bernardo seconded.

ACTION: Motion passed unanimously.

Chair Sutherland asked Commissioner Lucas how the new wine bottle facility is operating.

Commissioner Lucas said that it will be up and running in the next 30 days. He said they are all excited to see it up and running.

The Board reconvened as the Board of Natural Resources at 10:38 a.m.

LAND TRANSACTIONS (continued)

Raging River Transfer (Handout 5)

Brad Pruitt, Transactions Manager, South Puget Sound Region, approached the Board to present the Raging River Transfer. The property is located in King County and this is an informational presentation and no action is required by the Board. He explained that this is a direct, no cost transfer from King County to the Department. The Department will gain the lands in trust that will be managed for King County's bio-solids program under the Water Pollution Control Division (WPCD) trust. The WPCD's name has changed to the Waste Treatment Division but the acronym remains the same because of the agreement that was signed in 1995. The WPCD trust was created by an agreement between King County, the Department of Natural Resources, the Mountains to Sound Greenway Trust, and the University of Washington. It has commonly been referred to as the Bio-solids Agreement but the official name is The Agreement Pertaining to Forestland Acquisition and Bio-solids Application.

Mr. Pruitt explained that the trust is modeled after the forest board trust; revenues from that trust are distributed 75 percent to King County and 25 percent to the Department as a management fee. The property is located at the intersection of Highway 18 and Interstate 90, adjacent to Tiger Mountain State Forest, near North Bend and the Rattlesnake Ridge scenic area. The lands are blocked well with other state and public lands. He reviewed the surrounding lands on a map, describing each. The total acreage is 1,491 acres zoned for forestry. The lands come

with a conservation easement that strips the development rights. This was an agreement between Weyerhaeuser and King County. The property has state highway access. The investment value of the lands is valued at \$3.7 million, the land value is \$1.8 million and the timber value is \$1.9 million. These are productive forest lands that lie in low elevation; Douglas fir is the primary species, and site class II is predominant on most of the property. There is good operability and good access.

Mr. Kaino asked if the county is turning the property over to the Department because they don't want to manage it.

Mr. Pruitt said that was correct.

Mr. Kaino asked if they are still dumping sludge on it.

Mr. Pruitt replied that it is not required to dump bio-solids on it.

Mr. Nichols asked if this is an area where bio-solids used to be deposited and if they will continue to be deposited there,

Mr. Pruitt said that he did not think that bio-solids have ever been deposited on the property; Weyerhaeuser has deposited bio-solids on some of their land holdings in the past in King County, but he didn't think this property was used for that purpose (Weyco was the previous land owner before King County). The primary purpose of the WPCD Trust land is to generate revenue for the King County Bio-solids Program, and if suitable to be used to help recycle a King County waste treatment byproduct called bio-solids. The Bio-solids Agreement does not "require" the application of bio-solids on the ground managed for that trust. Only lands that are determined to be suitable to accept bio-solids as a fertilizer and soil amenity are to be used for that purpose. He said that there is a good possibility most or all of these lands would not be considered suitable to accept bio-solids application because the soils are low priority for fertilization, and lands have lots of wet (riparian) areas.

Mr. Nichols asked if this land is transferred like a Forest Board type of property, to generate revenue to support the bio-solids trust for King County, and if when the Department says "blocking up," it means for public access as well.

Mr. Pruitt said that for total management, forest management including recreation, public use and timber management.

Ms. Bergeson asked what suitable meant.

Mr. Pruitt explained that suitable means the land has to be away from riparian areas; it has to have particular soil characteristics for the lands. There has to be a basic soil structure so that it retains the bio-solids from moving into the water. The bio-solids cannot be applied to steep slopes.

Mr. Kaino asked if King County has a forestry department.

Mr. Pruitt said they do but it was agreed that the Department could manage the lands better than King County.

Mr. Kaino asked if King County thought it would cost them more than 25 percent to manage the land.

Mr. Pruitt replied that they thought it would.

Bonnie Bunning, Executive Director of Policy and Administration approached the Board. She noted that she was the region manager at the time the agreement was signed and that bio-solids were applied to some trust lands, but not necessarily the King County bio-solids lands themselves as Mr. Nichols mentioned. She said that the first application was done on Tiger Mountain, and that the age of the trees, size of the trees and access to be able to spray the bio-solids is important in selecting the sites.

Mr. Bare asked if this will be managed like any other trust lands, such as State Forest Board trust, and in practice if it will be managed like Tiger Mountain. He said that he understands that the property will not be used for the application of bio-solids, that is just the name of the trust.

Ms. Bunning replied that the difference in this trust is the destination of the revenue. She said that the 25 percent management fee has never gone down to the 22 percent. The 75 percent supports the waste treatment efforts, and rate payers' rates, as well as acquiring additional lands area. The 25 percent is the management fee. Ms. Bunning noted that there have been several harvests on these lands.

Chair Sutherland explained that the funds from County board lands are distributed to all of the state, county, and other junior taxing districts. In this particular case the Department keeps the 25 percent and the 75 percent goes to the wastewater treatment operations in King County.

Mr. Kaino said he suspects that this has to be a result of a negotiation process on how to set something up in a trust to insure future revenue for the WPCD, and the Department is experienced at operating under these trust agreements. He said that King County's forestry department could manage this property, but it appears that they wanted it set up in such a way that the money is set up through the trust process in perpetuity. He said he has not talked to any county commissioner that wouldn't like to take their property back and hire their own foresters to manage it simply for the flexibility it would provide.

Ms. Bunning added that in 1995 and even before that King County had tried to apply bio-solids out near Pac forest which was very controversial. They had other lands that they had hoped to deposit on that was located in problematic areas and they were not managing those lands because they did not have the capability to. In 1995 the county was acquiring large chunks of forest land for watershed purposes while they didn't have the set up or knowledge to manage them and this is probably set up to off load their past burden to a new face; the bio-solids

agreement was very well advertised and agreed to. It posed a recycling opportunity, growing trees and everyone that was part of it won financially. The agreement had the support of all the communities, and all the players in the Mountains to Sound Greenway in King County which was a different circumstance than they'd had before, so it was complicated.

Mr. Nichols asked Ms. Bunning what she meant by recycling opportunity.

Ms. Bunning replied that she meant recycling of the waste from King County and nearby to grow trees, bigger and faster.

Mr. Nichols asked if this land is a place for the deposition of bio-solids.

Ms. Bunning replied that it could be if it meets the criteria.

Mr. Nichols said that there is controversy associated with that and seems like a potential headache for the Department.

Ms. Bunning said that it isn't. She said the county was not looking for a place to dump the sludge; they were selling it to the agricultural community in eastern Washington. Jim Ellis came up with the idea of using it locally in the forests and the Department agreed to obtain a certain number of acres to apply it to. It was a good thing to the community up there. We could apply bio-solids to the lands that are coming to us if they have the right characteristics, but that is not the point and King County is not looking to them as a waste site. They are looking at them as forests to be managed.

Mr. Pruitt said that this is probably not the best place to put bio-solids because the site is high and there is not a need to for a soil amenity or fertilization, and also because the Raging River is right there. He said that it is probably more suitable in the higher elevations for example in the fruit grower's lands, but these lands were acquired because they were a good investment.

Dr. Bare agreed. He said that by accepting this land the Department has added 1,500 acres of working forest with a little more protection than King County might have afforded, and that is something we are trying to do in King County and the Puget Sound area is to hold more land as working forest.

Ms. Bunning agreed with Dr. Bare and she said that the Raging River area is very important to those who care about this real estate, and with the development rights removed it becomes affordable.

Mr. Kaino asked if it is our decision to allow for fertilization.

Ms. Bunning said that it is the Department's decision to decide on a fertilization treatment; it would choose the places.

Dr. Bare asked if this is going to become part of Tiger Mountain or it would have its own plan.

Ms. Bunning said that it is contiguous to Tiger Mountain but is not part of the Tiger Mountain plan. The Tiger Mountain plan had a different management prescription than is being currently used.

Mr. Bernardo asked why there is no Board approval required. He wondered if it had to do with the fact that there is no cost involved.

Chair Sutherland confirmed his statement.

Mr. Pruitt said that another reason is that the land selection committee made up of the Commissioner's representative, King County Executive's representative, and the Mountains to Sound Greenway president have looked at this and identified it as a good piece of land to acquire, and that decision has already been made per the agreement.

Ms. Bergeson asked if there would be any action required in the future.

Ms. Bunning replied not unless there is a timber sale.

MOTION: No motion is required for this transfer

SECOND: NONE

ACTION: No action is required for this transfer

City Limits Exchange #86-079618 (Handout 6)

Julie Armbruster, Property & Acquisition Specialist, provided the Board with the City Limits Exchange presentation.

The Department of Natural Resources proposes to exchange 81.53 acres, more or less, of State Common School Trust property in Jefferson County for 161 acres, more or less, of property owned by the City of Port Townsend in Jefferson County. A portion of the City's property will be purchased under the legislation allowing acquisition of working forests at risk of conversion. The property asset base is improved by:

- Removing two in-holdings in a trust block
- Eliminating an isolated trust parcel
- Reducing management costs
- Increasing long-term returns to the trust
- Acquiring property at risk of conversion in a working forest block

The State property is located approximately two miles southwest of Port Townsend and is within Section 9, Township 30 North, Range 1 West, W. M. The State property is located in Olympic Region. The City of Port Townsend properties are located approximately four miles southwest of Discovery Bay, within Sections 9 and 16, Township 28 North, Range 2 West, W. M. The

exchange properties are located in Olympic Region. A public hearing was held in Port Hadlock on September 27, 2007. A summary of testimony was presented to the Board of Natural Resources.

The City of Port Townsend properties are encumbered by one telephone utility easement and a right of way for Snow Creek County Road. The State parcel has no encumbrances.

VALUATION SUMMARY

State to Port Townsend	Acres	Land Value	Timber Volume	Timber Value	Total Value
Common School Trust	81.53	\$978,400	1,527 mbf	\$453,000	\$1,431,400
Cash					\$643,900
TOTAL					\$2,075,300

[Note on timber volume – this was incorrect in the proposal but correct in the presentation.]

The \$643,900 differential between the State property and the City property will be paid from the Real Property Replacement Account.

Port Townsend to State	Acres	Land Value	Timber Volume	Timber Value	Total Value
Snow Creek	161	\$177,300	5,488 mbf	\$1,898,000	\$2,075,300

Conveyance of State title will be by quitclaim deed. Conveyance of City of Port Townsend title will be by statutory warranty deed, and title insurance will be provided to State by City of Port Townsend. City of Port Townsend and State will exchange all mineral rights. As part of the exchange, the State is acquiring a strip of land originally bought by the City for the purpose of building a water line, which was never constructed. The City property is located in a landscape identified by DNR as a high priority for maintaining working forest lands.

Ms. Armbruster reviewed a map of the properties. She said that the city has wanted to acquire this property for quite some time. She indicated that surrounding development is making it difficult to manage the state property, and according to the appraiser the potential for a change in zoning was a factor in establishing the value of the property. She said there are no other trust properties around it. The city has identified this parcel in their comprehensive plan as a possible site for a yet unidentified educational facility.

Ms. Bergeson asked if that meant a school property or a city educational facility.

Ms. Armbruster said that that she heard several options but the city has not defined that yet. She reviewed the boundaries of the property belonging to the city, along with a 10-foot-wide corridor/strip that runs through a department-managed section 16. The 160 acres is accessed by a county road. The city acquired this property along with the 10-foot-wide corridor in the early 1900's as part of a plan to build a water system that was never completed. The city maintained ownership of the property and the corridor.

Mr. Nichols asked if the corridor is forested.

Ms. Armbruster said that the value of that corridor comes from the trees.

Ms. Bergeson asked if both pieces were included.

Ms. Armbruster replied that they are both included in the trade for the 80-acre parcel.

Mr. Kaino asked if the 10-foot corridor runs across the parcel.

Ms. Armbruster showed how the corridor runs through section 16 on the map.

Mr. Nichols said that in theory they could harvest the trees in that 10-ft strip.

Ms. Armbruster said that it would be cost prohibitive to survey around a one acre strip so it makes sense to put this into the exchange.

Mr. Kaino said that he understands that the Department is trading, although there is some cash involved, an at-risk parcel for a larger parcel of at-risk to convert that is more in line with our current in-holdings and addresses an easement issue, and that the 80 acre parcel is on the city limits and in danger of conversion, so it would be best to give up that property.

Chair Sutherland confirmed Mr. Kaino's comment and reminded him that the city has indicated that the parcel will be used for educational purposes.

Mr. Kaino said that 160 acre piece has a much higher timber value.

Ms. Armbruster said that this transaction is an illustration of the at-risk of conversion forest issue. It is too late to save the property near Port Townsend; there is development all around it. The Department can take the property in the Snow Creek area and block it up before the development reaches it.

Mr. Kaino said that you can see that in the land values of the two parcels.

Chair Sutherland noted that there is a county road running right through it.

Ms. Armbruster reviewed the Snow Creek block showing some development creeping up which would hamper management of the rest of the block. She showed that the Port Townsend piece is outside any defined landscape that the Department wants to remain in.

Mr. Kaino said that it is interesting that the parcel being acquired has a land value of \$1,000 per acre and the parcel we are liquidating has a value of over \$10,000 per acre because of its proximity to the city limits and its potential for development.

Ms. Armbruster said that a public hearing was held in September 2007. Seven people testified and expressed concern about the property being developed. One written comment was received.

Ms. Bergeson asked if the concern was about the one the Department is giving up or the one it is getting.

Ms. Armbruster said the concerns were about the one the Department is giving up; it has become a park-like area for many area residents. The main themes of the summary of testimony included:

- Concerns about the habitat that the state parcel provides
- They want the site to be protected
- They wanted the site to be used for old-growth timber
- They were concerned that the state get fair value for the site

Ms. Armbruster said that the Department is convinced through the appraisal process that the values are fair. There are no endangered or listed species in residence on the property. The oldest trees are 75 years old.

Mr. Nichols asked if the tribes had expressed any concerns.

Ms. Armbruster said they were notified but they had no comments. She said the comments came from people who live in the area.

Mr. Kaino said the residents probably want to keep those 80 acres for their own without paying for it.

Ms. Armbruster said that the City has said they would like to develop it; she said any conversion issues would be addressed locally. She went on to review the property values, explaining that since the city property meets the at-risk of conversion criteria the Department will purchase a portion of the property with the real property replacement account and will trade for the rest. She noted that this is a combination of an exchange and a purchase, and the Department recommends approval.

MOTION: Terry Bergeson moved to adopt Resolution 1275 approving the City Limits Exchange

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

Ms. Bergeson excused herself from the meeting at 11:20 a.m.

CHAIR REPORTS

Transactions Update (Handout 7)

Bonnie Bunning, Executive Director of Policy and Administration and Steve Saunders, Asset Management Division Manager provided the Board with an update on transactions.

Mr. Saunders greeted the Board providing them with a brief recap of the last transactions update. He noted that to date the Department has closed 22 transactions, if any were direct transfers they have been brought before the Board as sales going directly to local jurisdictions or other government entities. There have been 5 purchases through the at-risk working forest program, and there have been 4 exchanges, one sale, one trust land transfer and one trespass resolution. The Board has acted on more than one trust land transfer but the numbers used take into account only closed transactions. He explained that once they are brought to the Board and are approved, staff still has a significant amount of work to accomplish to close the deal. There is significant paperwork involved in recording easements, right of ways, and encumbrance documents with both the DNR Title Office and the County Assessor's office. Once all that has been recorded the deal is closed, this can take anywhere from 2-3 weeks for a small transaction, and up to 6 months or more for a large transaction.

Mr. Saunders noted that the Department currently has 75 transactions in process. He said that the Department has closed out the Central Cascades Exchange. The majority of the work was done last biennium but it was closed out this biennium. Staff continues to work on the Washington Department of Fish and Wildlife (WDFW) Exchange. The concept was to trade out of some of the Department's shrub steppe land that was intermixed with some of WDFW's shrub steppe land and we would pick up some of the forest blocks that they own that are intermixed with some of our forest blocks. That transaction is still underway and has turned into a challenging exchange because a lot of the land that WDFW is currently managing was acquired through various federal grant programs and when WDFW is trading out of lands that were purchased with federal grant funds they have to make sure that they are getting equal replacement lands for it. It is a conversion approval process that the Department is working through with WDFW to make sure that the replacement lands are appropriate and the appropriate federal agencies are signing off on it.

Mr. Saunders explained that the Department has completed South Stevens phase 1 and is now looking at South Stevens phase 2. He said that Department staff has a meeting later in the week that should provide them with the information they need to determine if there is a deal, or if the Department will be moving on to a different phase. He noted that this is a facilitated exchange and is being done with a private facilitator who brings together interested landowners

and parties, and present that as a package to us in exchange for lands that we bring together that is of interest to those parties.

Mr. Saunders said that the Department is trying to pick up some agricultural land; it is looking at a couple dryland wheat farms and a very large irrigated agricultural parcel. The large irrigated farm is managed by a trust that had some concerns when the proposal was presented to them; the Department is trying to work through those concerns. He said that the Department has taken on 3 new transactions this biennium. The Department received a budget proviso in the last legislative session that establishes the authority to accept cash as part of exchange value and then apply that cash to the Department's administrative costs, particularly appraisals but also some staff costs. That budget proviso remains in effect through this biennium giving the Department an opportunity to see if it can complete some additional exchange work. The Chehalis exchange will block up some forest land between the Department and another large forest landowner. The East Jefferson exchange is the same type of an exchange and will be block up some of the lands around the City Limits exchange that was presented earlier. The North Fork Green exchange will allow the Department to pick up some lands adjacent to a large block of land that it currently owns north of the north fork of the Green River. The Department will be trading out of some scattered parcels that will be transitioned out of natural resource and forest management into a more commercial and residential type of use.

Mr. Saunders talked about the at-risk working forest program. He explained that this was a legislative proviso that instructed the Department to use its replacement accounts. The Department received \$70 million to buy land with; however, it was restricted to using those funds for purchasing working forests at risk of conversion. The budget proviso allows the Department to pay fair market value for the lands where as before it was limited to forest land investment value. Staff has been working aggressively to try to acquire lands under this budget proviso. The Department has identified, researched and made offers on 61, 34 did not move forward, often because even at fair market value the offers did not meet the value expectations of the land owners. Those may be re-visited. There are 22 in process, and 5 have been presented to the Board and 5 have been closed on to date.

Ms. Bunning said that the legislature did proviso the replacement account and the land bank funds for forest lands, they also expressed intent to lease the development rights to a public entity, and in the leasing statute there was a change allowing the Department to lease the development rights to public entities. Other than an intent the Department is not sure what that process might look like and where the funds may or may not come from. The Department is planning to raise that issue in the upcoming legislative session and in the supplemental budget request along with the higher and better use value that was in addition to the forest investment value that was paid out of the replacement accounts. The Department plans to move the issue forward. Ms. Bunning said that the report that was provided to the Board is the required report to the legislature and includes the work the Department has done, how it was viewed, and how the criteria was set that governed the process.

Mr. Saunders summarized a table that shows the acres disposed of, the acres acquired, and the asset class. He noted that the lands that were disposed of were primarily urban, rural

residential. He noted that the conservation lands that are shown are moving out of forestry into conservation class that would represent the TLT parcels and a direct sale to the City of Seattle. The Department is trying to pick up additional dry land and irrigated farm land. He noted a small irrigated component of the Central Cascades exchange as an anomaly that is common.

Chair Sutherland asked if that would include small corner parcels with residences that have been auctioned off.

Mr. Saunders replied that those could show up as a small anomaly. He noted that the big driver on this one is the Central Cascades exchange where the Department traded out of 20,000 acres into 80,000 acres. He reviewed a chart that showed how many acres have been acquired so far this biennium. There have been 22 projects closed to date; staff expects a total of 75. The Department is not seeing the same diversification as was seen in the last biennium because of the budget proviso that only allowed the purchase of at-risk working forests. The Department has not been able to pick up some of the agricultural parcels it would have been looking at otherwise. However, the Department does have a few parcels as part of the South Stevens exchange which allows a little more diversification before the end of the biennium. He reminded the Board that the primary focus is to find lands that are excellent working forest lands that are at risk of conversion and in areas where the Department is trying to block up.

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

NONE

Meeting adjourned at 11:38 a.m.


Approved this 4TH day of NOVEMBER, 2008



Doug Sutherland, Commissioner of Public Lands



Bob Nichols for Governor Christine Gregoire



Terry Bergeson, Superintendent of Public Instruction



Jon C. Kaino, Commissioner, Pacific County




Bruce Bare, Dean, University of Washington



Daniel J. Bernardo, Dean, Washington State University

Attest:



Bonita Hill, Board Coordinator